

# Expedition Energy Inc.

## **2003 ANNUAL REPORT TO SHAREHOLDERS**

Expedition ~ the journey to move ahead with  
speed and efficiency

**Letter to the Shareholders**  
**Expedition Energy Inc. 2003 Annual Report**

For Expedition Energy Inc., as a start up company, 2003 was a year of transition. The company went public by way of reverse takeover of ABX Resources Ltd., a TSX Venture Exchange listed company and raised \$1.47 million. Concurrently with these transactions, on July 29, 2003, the company purchased a shut-in gas property at Highvale, Alberta.

The Board of Directors was changed as a result of the reverse takeover, the new management team came together in September and the company moved into its current premises on October 1, 2003, to continue building the company. Our team has put together a number of internally generated prospects and has also reviewed various external opportunities. These efforts have resulted in a number of drilling locations for 2004.

Over the year the company incurred land and seismic costs of \$80,910, drilling and completion costs of \$198,983 and drilled two wells (0.9 net), resulting in one heavy oil well (0.5 net) and reserves at Marsden, Saskatchewan and one dry hole (0.4 net) at Morningside, Alberta. Through acquisitions and drilling the company has added reserves at December 31, 2003 of 89,600 BOE proved and 118,900 BOE proved plus probable with 10% NPV values of \$1 million and \$1.2 million, respectively. The company exited 2003 with production of 29 BOEPD.

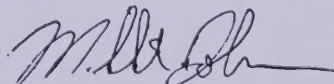
In December the company closed a flow-through share financing for \$1.96 million to be used on capital projects in 2004. As at year end the company had 12,961,543 shares outstanding. The company's year end changed to December 31 to allow investors to compare results to its peers in the industry.

**Outlook for 2004**

The management at Expedition is anticipating growth for the company during 2004. The company has been developing several prospect areas and having experienced success at recent land sales, is now positioned to drill in these areas. The company has put together a \$3.8 million budget for 2004 with room to expand to \$5.5 million as these prospect areas grow. The capital program includes several drilling locations and facilities in the Medicine Hat, Bashaw and other areas in Central Alberta and in West Central Saskatchewan. The capital program will be funded from existing cash, cash flow as well as from proposed equity issuances and bank financing.

In February, 2004 the Highvale, Alberta property was tied-in and placed on production bringing current production to approximately 60 BOEPD.

I would like to express my appreciation for the support of our shareholders and to thank the Board of Directors, as well as Expedition's management and staff for their dedication and effort to the expedition.



M. Scott St. John  
President & CEO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides a detailed review of the Corporation's operations and results for the nine months ended December 31, 2003 compared to the prior fiscal period. This review should be read in conjunction with the financial statements and accompanying notes as it is intended to assist readers in understanding the key factors underlying the financial results.

### **Highlights**

Expedition reported continued growth in all sectors in its second year of operation. The Corporation's reverse takeover of ABX Resources enabled it to go public at minimal cost and to increase its equity with the new ABX shareholders. The issuance of flow-through shares gives the Corporation the capital necessary to capitalize on exploration projects and thus increase production and the net worth of the Corporation and its shareholders.

	2003	2002
Oil and gas revenues	\$194,893	0
Cash flow used in operations	\$(42,803)	\$(9,649)
Per basic share	\$(0.01)	\$(0.04)
Loss	\$(199,152)	\$(5,539)
Per basic share	\$(0.03)	\$(0.02)

The term "Cash flow used in operations", which is expressed before changes in non-cash working capital, is used by the Corporation to analyze operating performance, leverage and liquidity. This term does not have any standardized meaning prescribed by the Canadian Generally Accepted Accounting Principles (GAAP) and, therefore might not be comparable with the calculation of a similar measure for other companies.

### **Production**

Crude oil and NGL production for the nine months ended December 31, 2003 was 7,643 Bbls or 27.6 Bopd. Natural gas production for the nine months ended December 31, 2003 was insignificant. Combined production for the period averaged 27.6 Boe/pd. Oil production was primarily heavy oil from the Marsden area following successful development activity during the period.

### **Revenue and Pricing**

Revenue from petroleum and natural gas sales in 2003 was \$194,893. In 2003 the Corporation's average heavy crude oil price was \$24.35/Bbl, and light crude oil was \$38.74. The combined corporate average price was \$25.50/Boe in 2003 due to the heavy crude oil that made up the bulk of the production for this period.

### **Royalties**

Royalties totaled \$31,026 in 2003. As a percentage of revenue, royalties averaged 16.0% in 2003. Royalties include payments made to third party overrides, and the Crown in Saskatchewan and Alberta. Due to the large portion of Expedition's royalties that are not paid to the Alberta Crown and hence not eligible for the Alberta Royalty Tax Credit ("ARTC") program, the effect of ARTC on Expedition's royalties was insignificant.

### **Operating Expenses**

Operating expenses were \$52,150 in 2003 or \$6.82/Boe. These operating costs are reasonable especially considering that the majority of production is obtained from heavy oil which typically require higher operating costs due to trucking and processing.

### **General and Administrative Expenses**

Net general and administrative expenses for nine months ended December 31, 2003 were \$224,467 compared to the prior period expenses of \$9,649. These additional G & A expenses were incurred in setting up a new office for the Corporation and in building up staff and operations to allow the Corporation to move forward on its overall plan for the future. A full time geologist and a V.P. Operations were hired in the last quarter of the year. Part time consulting staff were utilized to perform accounting, land and geophysical work. It is expected that G & A in 2004 will be higher due to the higher level of operations.

### **Interest Income**

The small amount of interest income in 2003 was from interest from the investment of short-term cash balances. Management prudently invests excess cash in short-term investments to ensure the best use of funds while ensuring that all liabilities are paid on a reasonable basis and keeping cash available for opportunities as they arise.

### **Depletion and Depreciation**

The provision for depletion, depreciation and site restoration was \$154,015 in 2003 or \$20.15/Boe. The high rate is attributable to the low rate of production for the nine months ending December 31, 2003 compared to the proven reserves that have been acquired by the Corporation. The Corporation should have lower depletion per Boe in 2004 due to the start of production from future reserve additions starting in February, 2004.

### **Taxes**

The future income tax reduction for the nine months ending December 31, 2003 is the result of incurring a loss at the end of the period. The issuance of flow-through shares created a future tax liability due to the renunciation of the Corporation's tax pools. The loss at December 31, 2003 lowers the future tax payable by creating a loss carry-forward to use in the future to reduce taxes payable. As at December 31, 2003 the Corporation had tax pools of approximately \$2.1 million after the cumulative flow-through share issuances and current year estimated claims.

### **Netbacks**

Expedition's corporate operating netback in 2003 was \$111,717 or \$14.62/Boe (6:1). A detailed calculation of Expedition's netback per barrel of oil equivalent is summarized below:

Nine Months ended December 31, 2003			
	Heavy OIL \$/Bbl	Light OIL \$/Bbl	\$/Boe (6:1)
Corporate average sale price	24.35	38.74	25.50
Royalties	(3.15)	(15.92)	(4.06)
Net after royalties	21.20	22.82	21.44
Operating expenses	(6.49)	(10.00)	(6.82)
Net from field operations	14.71	12.82	14.62
Interest income			0.27
Administration (net of stock-based compensation)			(20.49)
Cash flow used by operations			(5.60)
Depletion, depreciation and site restoration			(20.15)
Stock-based compensation			(8.88)
Future income tax reduction			8.57
Net Loss			(26.06)

### ***Net Loss and Cash Flow***

Net loss was \$199,152 for the nine months ended December 31, 2003. Cash used in operations was \$42,803. On a per share basis, the net loss was \$0.03/share for the nine months ended December 31, 2003 and \$0.05/share for the previous period and cash used in operations was \$0.01/share in 2003 and \$0.04/share in the previous period.

The following table summarizes revenue from petroleum and natural gas sales, cash flow used in operations, and net loss for Expedition for each of the three fiscal quarters ending December 31, 2003.

	Quarter Ended June 30	Quarter Ended September 30	Quarter Ended December 31
Revenue	\$65,626	\$59,761	\$69,506
Cash Flow	(22,972)	36,840	(56,671)
Per share, basic	(0.11)	0.006	(0.01)
Per share, diluted	(0.11)	0.006	(0.01)
Net Loss	(26,708)	13,733	(186,187)
Per share, basic	(0.13)	0.002	(0.02)
Per share, diluted	(0.13)	0.002	(0.02)

### ***Capital Expenditures***

Capital expenditures are summarized below with prior period comparatives:

	Nine Months ended December 31, 2003	For the period from incorporation on April 11, 2002 to March 31, 2003
Land acquisition/maintenance	2,000	38,520
Geological & geophysical	80,910	0
Exploration & development drilling	198,983	150,833
Production equipment	42,682	23,942
Property acquisitions	757,988	0
Other	14,123	0
TOTAL	1,096,686	213,295

### ***Liquidity and Capital Resources***

During 2003 the capital resources utilized to implement the Corporation's investment plan were obtained by issuance of flow-through common shares.

The Corporation issued 4,060,000 flow-through common shares for cash. The primary use of the proceeds was to finance the capital expenditure program for the 2004 year. At the end of the year Expedition had 12,961,543 common shares outstanding and 2,189,430 options outstanding at exercise prices ranging from \$0.25 to \$0.80.

Expedition common shares trade on the TSX Venture Stock Exchange under the symbol "XPD".

The following chart summarizes Expedition's capital structure as at December 31, 2003:

Common shares	\$2,837,750
Contributed surplus	213,904
Deficit	(204,691)
Working capital	1,836,688
Provision for future site restoration	5,895
Future income taxes	455,050
TOTAL	\$1,471,220

The Corporation had working capital of approximately \$1.8 million at the end of the period. Current account levels increased over the year in conjunction with share capital issues. All of the capital expenditures were funded from the equity financing. Capital expenditures for the nine months ended December 31, 2003, were \$1,096,686. Current capital expenditure plans for 2004 total \$3.8 million, of which \$3.3 million will be allocated to drilling and facility construction. The Corporation plans to fund these expenditures from increased cash flow and debt.

#### ***Business Risks and Uncertainties***

Natural gas and crude oil exploration, development, production and marketing operations inherently have a number of business risks and uncertainties including the uncertainty of finding new reserves, the instability of commodity prices, operational risks, the cost of capital available to fund exploration and development programs, regulatory issues and taxation, and the requirements of new environmental laws and regulations. The Corporation manages these risks by employing competent professional staff, following sound operating practices and utilizing cash flow from operations and the prudent issuance of equity to fund capital expenditures so that debt does not become a burden.

The Corporation generates its exploration prospects internally. Extensive geological, geophysical, engineering and environmental analyses are performed before committing to the drilling of new prospects. These analyses are used to ensure a suitable balance between risk and reward.

The Corporation conducts its operations in a manner consistent with environmental regulations as stipulated in provincial and federal legislation. Expedition is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased capital and operating expenditures as a result of the increasingly stringent laws relating to the protection of the environment.

Expedition's operations are subject to the risks normally associated with the oil and gas industry including hazards such as unusual or unexpected geological formations, high reservoir pressures, and other conditions involved in drilling and operating wells. The Corporation minimizes these risks using prudent safety programs and risk management, including insurance coverage against potential losses.

The oil and gas industry has been subject to considerable price volatility, over which companies have little control, and a material decline in the price of oil and/or natural gas could result in a significant decrease in the Corporation's future anticipated revenues. The oil and gas industry has inherent business risks and there is no assurance that products can continue to be produced at economical rates or that produced reserves will be replaced. Fluctuations in currency and exchange rates and changes in production volumes are daily risks in the oil and gas industry.

Although the Corporation has no set policy, management of the Corporation will use financial instruments to reduce corporate risk in certain situations.

# EXPEDITION ENERGY INC.

## Financial Statements

December 31, 2003

KPMG LLP  
Chartered Accountants  
2000 Bankers Building  
Calgary, Alberta  
T2C 1A1

## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying consolidated financial statements are the responsibility of management and the Board of Directors of the Corporation. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial and operating information presented in the annual report is consistent with that shown in the financial statements.

Management maintains appropriate systems of internal control which ensure transactions are appropriately authorized, assets are safeguarded, and financial records are properly maintained.

External auditors appointed by the shareholders have conducted an examination of the corporate and accounting records and have provided an independent professional opinion. The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors and has reported to the Board of Directors. The Board has approved the financial statements.

Scott St. John  
President and CEO  
April 21, 2004

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Expedition Energy Inc. as at December 31, 2003 and March 31, 2003 and the statements of operations and deficit and cash flows for the nine month period ended December 31, 12003 and for the period from incorporation on April 11, 2002 to March 31, 2003. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and March 31, 2003 and the results of its operations and its cash flows for the nine month period ended December 31, 12003 and for the period from incorporation on April 11, 2002 to March 31, 2003 in accordance with Canadian generally accepted accounting principles.

# KPMG LLP

Chartered Accountants  
Calgary, Canada  
April 21, 2004

**EXPEDITION ENERGY INC.****BALANCE SHEETS**

	<b>December 31, 2003</b>	<b>March 31, 2003</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,047,850	\$ 5,931
Accounts receivable	231,990	109,837
Deposits and prepaid expenses	108,858	84,137
	2,388,698	199,905
Goodwill (note 3)	77,359	-
Petroleum and natural gas properties (note 4)	1,393,861	213,295
	<b>\$ 3,859,918</b>	<b>\$ 413,200</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 552,010	\$ 333,549
Future site restoration liability	5,895	-
Future income tax liability (note 6)	455,050	150
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 5)	2,837,750	85,040
Contributed surplus	213,904	-
Deficit	(204,691)	(5,539)
	2,846,963	79,501
Future Operations (note 2)		
Commitment (note 5)	\$ 3,859,918	\$ 413,200

See accompanying notes to financial statements.

On behalf of the Board:

(signed) Director  
M. Scott St. John

(signed) Director  
William C. Guinan

**EXPEDITION ENERGY INC.**  
**Statements of Operations and Deficit**

	Nine Months ended December 31, 2003	For the period from incorporation on April 11, 2002 to March 31, 2003
<b>Revenues</b>		
Oil and gas revenues	\$ 194,893	\$ -
Less royalties	(31,026)	-
	163,867	-
Interest income	2,093	-
	165,960	-
<b>Expenses</b>		
Operating	52,150	-
General and Administrative	224,467	9,649
Depletion, depreciation and site restoration	154,015	-
	430,632	9,649
<b>Loss before provision for income taxes</b>	(264,672)	(9,649)
Future income tax reduction (note 6)	65,520	4,110
<b>Net loss for the period</b>	(199,152)	(5,539)
<b>Deficit, beginning of period</b>	(5,539)	-
<b>Deficit, end of period</b>	\$ (204,691)	\$ (5,539)
Basic and diluted loss per common share	\$ (0.03)	\$ (0.02)
Weighted average common shares outstanding		
Basic	6,239,415	266,061
Diluted	6,239,415	266,061

See accompanying notes to financial statements.

**EXPEDITION ENERGY INC.**  
**STATEMENTS OF CASH FLOWS**

	Nine Months ended December 31, 2003	For the period from incorporation on April 11, 2002 to March 31, 2003
<b>Cash used in operating activities:</b>		
Net loss for the period	\$ (199,152)	\$ (5,539)
Items not affecting working capital:		
Depletion, depreciation and site restoration	154,015	-
Future income tax reduction	(65,520)	-
Stock-based compensation	67,854	(4,110)
	(42,803)	(9,649)
Net change in non-cash working capital	(71,009)	-
	(113,812)	(9,649)
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares, net of issue costs	3,136,762	89,300
<b>INVESTING ACTIVITIES</b>		
Purchase of petroleum and natural gas properties	(1,096,686)	(213,295)
Net change in non-cash working capital	32,665	139,575
Cash acquired on acquisition of ABX Resources Inc. (note 3)	82,990	-
	(981,031)	(73,720)
Increase in cash and cash equivalents	2,041,919	5,931
Cash and cash equivalents, beginning of period	5,931	-
Cash and cash equivalents, end of period	\$ 2,047,850	\$ 5,931
Cash interest received	2,093	-

See accompanying notes to financial statements.

**EXPEDITION ENERGY INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2003**

**Nature of operations**

Effective July 29, 2003, ABX Resources Inc. ("ABX"), acquired all of the issued and outstanding shares of Expedition Energy Ltd., a private corporation ("Privateco"). The transaction was accounted for as a reverse take-over. Accordingly, the results of operations include those of Privateco from inception and those of the combined Corporations from the date of the acquisition on July 29, 2003.

On September 23, 2003, the shareholders of ABX (the "Corporation") approved a name change from ABX Resources Inc. to Expedition Energy Inc. and approved a share consolidation on the basis of one new share for every five existing common shares. The two Corporations were amalgamated on September 30, 2003, under the name Expedition Energy Inc.

The principal business of the Corporation is the acquisition of, exploration for and development and production of petroleum and natural gas properties.

**1. Significant accounting policies**

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management of the Corporation to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting principles described in note 1.

Specifically, the amounts recorded for depletion and depreciation of petroleum and natural gas properties and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates future periods could be significant.

**a) Exploration and development costs:**

The Corporation follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized in one cost centre. Such costs include land acquisition, drilling of productive and non-productive wells, geological and geophysical, production facilities and equipment, rentals and other carrying charges directly related to unproved properties and administrative expenses directly related to the acquisition, exploration and development activities.

Costs of acquiring unproved properties are initially excluded from the full cost pool and are assessed yearly to ascertain whether impairment has occurred. When proved reserves are assigned to the property or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the full cost pool. Depletion of petroleum and natural gas properties and depreciation of production equipment is calculated using the unit-of-production method, based on production volumes, before royalties, in relation to estimated proven reserves as determined by independent petroleum engineers. For purposes of the depletion and depreciation calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of gas equates to one barrel of oil.

Proceeds received from the disposition of petroleum and natural gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized, unless such disposition would result in a change greater than 20% in the depletion or depreciation rate.

The Corporation applies a "ceiling test" to capitalized costs to ensure that the net costs capitalized do not exceed the estimated future net revenues from the production of its proven reserves, plus the cost of unproved properties, less impairment. Future net revenues are calculated using year-end prices and include an allowance for estimated future general and administrative expenses, interest expense, income taxes and future site restoration costs.

Office equipment is depreciated on the declining balance basis at rates ranging from 20% to 30% per annum.

**b) Future site restoration and abandonment costs:**

Estimated future site restoration costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Corporation's engineers based on current regulations, costs, technology and industry standards. The period charge is expensed and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

**c) Joint Interests:**

A portion of the Corporation's exploration, development and production activities is conducted jointly with others. These financial statements reflect only the Corporation's proportionate interest in such activities.

**d) Cash and cash equivalents:**

Cash and cash equivalents are comprised of cash and all investments with a maturity date of three months or less.

**e) Future income taxes:**

The Corporation uses the liability method of tax allocation accounting. Under this method, future tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

**f) Flow-through shares:**

The Corporation has financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditure are renounced to the subscribers in accordance with tax legislation. The estimated cost of the renounced tax deductions are reflected in share capital and future income taxes when the expenditures are renounced.

**g) Stock-based compensation:**

During 2003, the Corporation adopted a new accounting standard, which requires the use of the fair value method for valuing stock option grants. Under this method, compensation cost, attributable to all share option grants is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The impact of the adoption of this amended standard is disclosed in note 5.

The Corporation has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Corporation accounts for actual forfeitures as they occur.

**h) Per share amounts:**

Basic per share amounts are computed by dividing net income by the weighted average number of common shares outstanding for the period. The treasury stock method is used to determine the dilutive effect of stock options and warrants, whereby any proceeds from the exercise of the stock options are assumed to be used to purchase common shares at the average market price during the period.

**i) Goodwill:**

Goodwill, at the time of acquisition, represents the excess of the purchase price of a business over the fair value of the net assets acquired. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the fair value of the reporting unit is less than its carrying value, a goodwill impairment loss is recognized as the excess of the carrying value of the goodwill over the fair value of the goodwill.

**j) Revenue recognition:**

Oil and gas revenues are recognized when title and risks pass to the purchaser.

**2. Future operations**

The financial statements have been prepared on a basis applicable to a going concern. At December 31, 2003, the Corporation has significant commitments (see note 5), has used cash flow in operations and has incurred an operating loss. Future operations are dependant upon the establishment of a bank line of credit, raising of capital, successful execution of its drilling program and establishing ongoing profitable activities. If the going concern basis were not appropriate, adjustments would be necessary to recorded assets and liabilities and reported revenues and expenses.

### 3. Business combination

Effective July 29, 2003, ABX Resources Inc. ("ABX") acquired all of the issued and outstanding shares of Expedition Energy Ltd. ("Expedition"). As consideration, ABX issued 7,436,216 pre-consolidation common shares on the basis of 11,204 ABX shares for each Expedition share. Although the legal parent in the acquisition was ABX, the transaction, under securities regulations and for accounting purposes deemed control to pass to the legal subsidiary Expedition, and accordingly reverse take-over accounting applied. The two Corporations were amalgamated on September 30, 2003, under the name Expedition Energy Inc. This transaction was accounted for by the purchase method, based on fair values as follows:

Net assets acquired:	
Working capital deficiency (including cash of \$82,990)	\$ (26,941)
Petroleum and natural gas properties	232,000
Future income taxes	148,987
Goodwill	77,359
Common shares of ABX issued	\$ 431,405

The fair value of the shares issued was determined as \$0.60 per share representing the fair value of an Expedition share on the date of the announcement of the arrangement times 1,382,708 shares, representing the number of shares Expedition would have issued to acquire ABX in order to retain a similar ownership percentage in the consolidated entity.

Also effective July 29, 2003, the Corporation completed the acquisition of certain petroleum and natural gas properties for cash consideration of \$765,962, inclusive of interest and other adjustments.

### 4. Petroleum and Natural Gas Properties

	December 31, 2003	March 31, 2003
Petroleum and natural gas properties	\$ 1,527,858	\$ 213,295
Office furniture and equipment	14,124	-
Less: accumulated depletion and depreciation	(148,120)	-
Net book value	\$ 1,393,861	\$ 213,295

During the nine month period ended December 31, 2003 the corporation capitalized \$32,779 in direct general and administrative costs. For the period from incorporation on March 11, 2002 to March 31, 2003 the Corporation did not capitalize any direct or indirect general and administrative expenses.

No costs of unproven oil and natural gas properties have been excluded from the depletion calculation of 2003 or 2002.

As at December 31, 2003, the estimated future site restoration costs to be accrued over the life of the remaining proven reserves were \$75,000. Depletion and depreciation for the nine month period ended December 31, 2003 includes a provision of \$5,895 for estimated future site restoration costs.

## 5. Share Capital

### a) Authorized:

Unlimited number of Class "A" voting common shares without nominal or par value

### b) Issued:

	December 31, 2003		March 31, 2003	
Class A Common Shares:	Number	Amount	Number	Amount
Balance - Beginning of period	1,091,100	\$ 85,040	-	\$ -
Issued for cash - Class A shares			991,100	79,300
Issued for cash - Class A flow-through shares	250,000	25,000	100,000	10,000
Consolidation of shares (i)	(894,067)			
Issued for cash - Class A flow-through shares	216,667	65,000		
Share issue costs (net of tax effect of \$5,841)		(9,282)		
Income tax effect of flow-through shares		(34,758)	-	(4,260)
	663,700	131,000		
Shares issued to Expedition Energy Ltd. shareholders on reverse take-over (note 2)	7,436,216	131,000		
Common shares held by ABX shareholders	7,900,000	431,405		
Issued for cash - Class A Common Shares	29,471,500	1,473,575		
Share issue costs (net of tax effect of \$57,102)		(145,137)		
Consolidation of shares (ii)	(35,846,173)			
Issued for cash - Class A flow-through shares	4,000,000	1,828,766		
Share issue costs (net of tax effect of \$79,859)		(235,641)		
Income tax effect of flow-through shares		(777,451)		
	12,961,543	\$ 2,706,517	1,091,100	\$ 85,040

### Share Purchase Warrants:

Balance - Beginning of period	\$ -	-	\$ -
Issued for cash - share purchase warrants	131,233	-	-
Balance - End of period	\$ 131,233		\$ -
Total Share Capital - End of period	\$ 2,837,750		\$ 85,040

(i) Effective April 30, 2003 the shares of Expedition Energy Ltd. were consolidated on a one for three basis.

(ii) Effective September 23, 2003 the shares of Expedition Energy Inc. were consolidated on a one for five basis.

Under the terms of the flow-through share agreements, the Corporation renounced \$2,050,000 of qualifying expenditures effective December 31, 2003 (March 31, 2003 - \$10,000). At December 31, 2003, the Corporation has commitments of \$1,819,700 to be spent on qualifying expenditures prior to December 31, 2004.

**c) Share purchase warrants:**

On November 17, 2003, the Corporation issued 4,000,000 Units on a private placement basis for gross proceeds of \$1,960,000. Each unit consisted of one flow-through Class A common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one flow-through common share at a price of \$0.80 per share until December 15, 2004. A value of \$131,233 was ascribed to the warrants on issuance.

**d) Employee, Director and Agent options and warrants:**

(i) The Corporation has a stock option plan under which directors, officers, consultants and employees are eligible to receive stock options. Options granted under the plan have a term of up to five years and vest 1/4 on the date of grant, and 1/4 on each of the next three anniversaries. The exercise price of each option equals the market price of the Corporation's Class A common shares on the date of the grant. At December 31, 2003, 800,000 (200,000 - exercisable) options to acquire Class A common shares at a price of \$0.54 per share have been granted, expiring on November 11, 2008. During the period ended December 31, 2003, no options were exercised or cancelled.

(ii) In conjunction with the private placement of 5,894,300 (post-consolidation) shares for gross proceeds of \$1,473,575, the Corporation granted the agent an option to purchase 589,430 Class A common shares at \$0.25 per share (post-consolidation), exercisable at any time within 18 months from, July 29, 2003. During the period ended December 31, 2003, no options were exercised or cancelled.

(iii) In conjunction with the private placement of 4,000,000 Units, the Agents were granted 400,000 options to purchase additional Units consisting of a Class A common share at \$0.49 per share and a share purchase warrant entitling the holder to purchase one Class A common share at a price of \$0.80 until May 17, 2005. During the period ended December 31, 2003, no options were exercised or cancelled.

	2003	
	Number of Options	Weighted- average exercise price
Outstanding - Beginning of period	-	\$ -
Granted:		
Options to agents (ii)	589,430	0.25
Options to employees and directors (i)	800,000	0.54
Options to agents (iii)	400,000	0.49
Warrants to agents (iii)	400,000	0.80
Outstanding - End of period	2,189,430	\$ 0.35
Exercisable - End of period	1,589,430	\$ 0.49

**e) Stock-based compensation:**

During the nine-month period ended December 31, 2003, the Corporation early adopted a new accounting standard for stock based compensation payments which requires the use of the fair value method for recognizing a compensation cost for stock options granted.

The fair value of the stock options and agent options were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Directors and Employee Options	Agent Options
Expected life (years)	4.0	1.5
Risk free interest rate	3%	3%
Expected volatility	75%	75%

The weighted average fair value of director and employee options granted during the period ended December 31, 2003 was \$0.32 per option. The fair value of these options totaling \$67,854, was recorded as compensation expense with an equal amount recorded to contributed surplus.

The weighted average fair value of agent options granted during the period ended December 31, 2003 was \$0.09 per option for a total value of \$146,050, which has been included in share issue costs and offset to contributed surplus.

## 6. Income Taxes

(a) Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 40.6% (March 31, 2003 - 42.6%) to the loss before income taxes as follows:

	December 31, 2003	March 31, 2003
Loss before income taxes	\$ (264,672)	\$ (9,649)
Expected income taxes (reduction)	(107,510)	(4,110)
Increase (decrease) in taxes resulting from:		
Crown royalties	10,793	-
Non-deductible stock-based compensation	27,562	-
Resource allowance	4,219	-
Other	(584)	-
Provision for income taxes	\$ (65,520)	\$ (4,110)

(b) The components of future income taxes are as follows:

	December 31, 2003	March 31, 2003
Future income tax liabilities:		
Petroleum and natural gas properties	(731,661)	(4,260)
Future income tax assets:		
Future site restoration costs	2,041	-
Share issue costs	160,445	-
Non-capital losses	114,125	4,110
	276,611	4,110
Future income taxes	\$ (455,050)	\$ (150)

(c) The Corporation has available non-capital loss carry-forwards totaling approximately \$300,000 which expire commencing in 2007.

## 7. Cash Flow Information

	December 31, 2003	March 31, 2003
Accounts receivable	\$ (104,269)	\$ (109,837)
Deposits and prepaid expenses	(24,721)	(84,137)
Accounts payable and accrued liabilities	90,646	333,549
	\$ (38,344)	\$ 139,575
Changes in non-cash working capital related to:		
Operating activities	\$ (71,009)	\$ -
Investing activities	32,665	139,575
	\$ (38,344)	\$ 139,575

## 8. Financial Instruments

### (a) Fair value

The fair values of the Corporation's accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-terms to maturity.

### (b) Credit risk

A portion of the Corporation's accounts receivable are with joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Corporation's oil and natural gas production are subject to an internal credit review designed to minimize the risk of non-payment.



# Corporate Information

## **Board of Directors**

Peter Gross  
William Guinan  
Cameron Millikin  
Scott St. John

## **Executive Officers**

Scott St. John, President & CEO  
Allan Bamsey, Vice-President Operations  
William Guinan, CFO and Secretary

## **Auditors**

KPMG LLP, Calgary, Alberta

## **Evaluation Engineers**

Gilbert Laustsen Jung Associates Ltd.  
Calgary, Alberta

## **Legal Council**

Borden Ladner Gervais LLP, Calgary, Alberta

## **Registrar and Transfer Agent**

Valiant Trust Company, Calgary, Alberta

## **Stock Exchange Listing**

TSX Venture Exchange Trading symbol "XPD"

## **Corporate Office**

710, 540-5<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 0M2  
Tel: (403) 264-1699 Fax: (403) 264-1499

